

## **FROM KNOWLEDGE TO PROSPERITY: ECONOMIC LITERACY AS A PATHWAY TO POVERTY REDUCTION**

**Dhea Ramadhani Salim<sup>1</sup>, Reinata Luciana Firmansyah<sup>2</sup>, Fathin Mufid Akram<sup>3</sup>, Navik Istikomah<sup>4</sup>**

<sup>1,2,3</sup>Faculty of Economics and Business Education, Universitas Pendidikan Indonesia, Jalan Dr. Setiabudi No.229

E-mail: [dheasalim1516@upi.edu](mailto:dheasalim1516@upi.edu); [reinatalf@upi.edu](mailto:reinatalf@upi.edu); [fathinma25@upi.edu](mailto:fathinma25@upi.edu); [navik.istikomah@upi.edu](mailto:navik.istikomah@upi.edu)

### **ABSTRACT**

This study aims to analyze how economic literacy contributes to poverty reduction, particularly by identifying the specific mechanisms through which economic knowledge and financial behavior improvements affect the welfare of low-income communities in Indonesia. This research employs a Systematic Literature Review (SLR) method with PRISMA (Preferred Reporting Items for Systematic reviews and Meta-Analyses) framework to synthesize relevant peer-reviewed studies from Scopus and Google Scholar published between 2010 and 2025. A total of 17 articles that met inclusion criteria were reviewed to identify recurring patterns, mechanisms, and contextual variables linking economic literacy to poverty alleviation. The findings reveal that economic literacy significantly improves financial decision-making, encourages healthy financial behavior, and enhances the ability to manage income and expenses. It also promotes greater access to financial services, strengthens micro-entrepreneurship, and supports household-level economic resilience, particularly among vulnerable groups. This study contributes to Indonesian economic development by providing insights that can inform the design of inclusive financial education policies and programs. It highlights the importance of integrating economic literacy into school curricula, community outreach, and cross-sectoral collaboration to build sustainable prosperity and reduce income inequality. The findings suggest that embedding financial education in public policy, social assistance programs, and community development initiatives can foster sustainable poverty reduction and more inclusive economic participation across regions.

**Key words:** Community empowerment; Economic literacy; Financial behavior; Financial inclusion; Poverty reduction.

### **INTRODUCTION**

Poverty remains a serious social and economic problem in Indonesia, according to data from the Badan Pusat Statistik (BPS), as of September 2024, 8.57 percent of the total population, or approximately 24.06 million people in Indonesia, were still living below the poverty line (Badan Pusat Statistik, 2025). This figure underscores that poverty has not yet been fully eradicated, especially in regions facing structural issues like limited access to education, high unemployment, and, significantly, insufficient financial literacy. Low educational attainment often restricts access to decent employment (Munawar, Humaira, & Radhia, 2024), while high unemployment exacerbates the lack of income necessary to meet basic needs (Ashari, Gunawan, Irwan, & Nilawati, 2019). Critically, a lack of financial literacy, particularly among the lower-middle class, prevents optimal use of financial services, making individuals vulnerable to financial shocks and trapping them in a cycle of poverty (Habibullah, 2019). The limited understanding of basic personal financial management concepts makes them susceptible to irrational financial decisions (Dolonseda, Manongko, & Arsana, 2024).

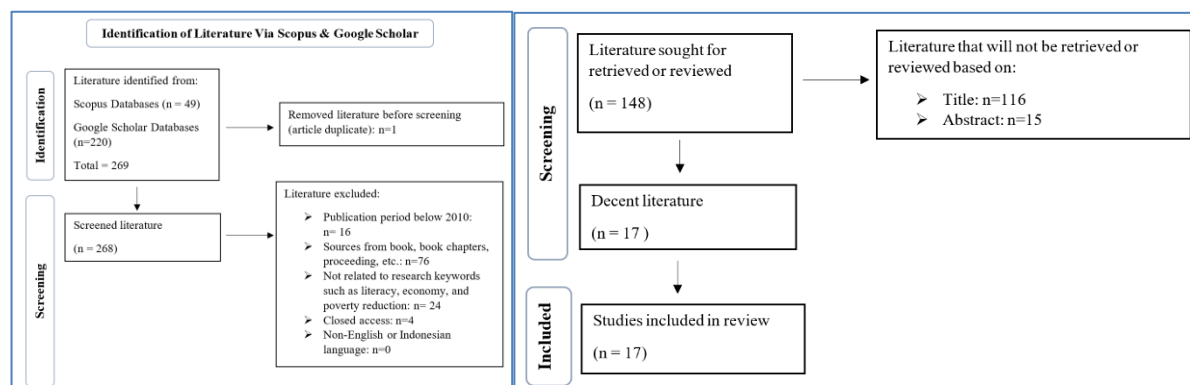
Economic and financial literacy is identified as the fundamental ability that allows individuals to understand and apply economic concepts in daily life, including making investment decisions and efficiently managing financial resources. Individuals with good economic literacy tend to manage their finances more effectively, avoid unnecessary expenses, and prioritize long-term financial goals, which in turn enhances their financial well-being. Various studies have strongly supported this finding. Research by Xu et al. (2023) explicitly shows that economic literacy, especially in financial management, has a significant impact on reducing household poverty, both in the short and long term. Furthermore, Marpaung et al. (2024) explained that economic literacy can boost productivity and income through efficient financial resource management and facilitating wiser investment decisions, thus contributing to poverty reduction. Additionally, Tsouli (2022) found that literacy influences an individual's access to and management of financial services, which directly impacts the reduction of poverty levels.

Despite the consistent findings in the existing literature underscoring the positive role of economic literacy in improving welfare and reducing financial vulnerability, there remains a critical gap that needs addressing. The majority of studies focus on correlational relationships without systematically identifying the specific mechanisms that are most effective within Indonesia's diverse socio-economic context. There has been no comprehensive exploration of the implementation barriers for literacy programs among low-income communities, who often face unique challenges related to access and the relevance of the material. Therefore, a systematic study is required not only to reinforce prior findings but also to explore contextual and adaptable literacy models that can provide a more detailed and applicable policy foundation.

Based on this gap, this study has two main objectives. First, to systematically analyze the extent to which economic literacy plays a role in poverty reduction efforts, particularly among low-income communities, through a systematic literature review. Second, to identify the most effective and relevant forms of economic literacy programs and materials for sustainably improving the financial capabilities of these communities. Through this approach, it is hoped that empirical findings can be obtained that serve as a basis for formulating applicable public policies and educational programs, asserting that improving economic literacy is a crucial long-term strategy for fostering the overall social and economic well-being of the community.

## METHOD

This study employs a Systematic Literature Review (SLR) guided by the PRISMA framework to synthesize 17 peer-reviewed articles (2010–2025) obtained from Scopus and Google Scholar. The SLR approach was used to systematically identify, assess, and integrate evidence on how economic literacy contributes to poverty reduction (Kitchenham & Brereton, 2013). Articles were searched using Boolean combinations of keywords such as “*economic literacy*,” “*financial literacy*,” “*economic education*,” “*poverty alleviation*,” and “*economic empowerment*,” limited to journal publications in English or Indonesian. The inclusion criteria required studies to (1) be peer-reviewed journal articles, (2) focus on the relationship between economic or financial literacy and poverty reduction or welfare improvement, (3) be contextually relevant to Indonesia or other developing countries, and (4) be published between 2010 and 2025. Non-academic, irrelevant, or non-English/Indonesian sources were excluded.



**Figure 1. Identification of Literature Studies with PRISMA**

Following the PRISMA stages, identification, screening, eligibility, and inclusion a total of 17 eligible studies were analyzed from an initial 269. Data were extracted using a structured template covering research focus, methods, and findings, then synthesized thematically to identify recurring mechanisms linking economic literacy, financial behavior, and poverty alleviation.

## RESULTS AND DISCUSSION

This section presents the research findings and their scientific interpretation, supported by sufficient empirical data. The discussion should explain the nature of the findings, underlying causes, and observed trends in a scientific manner rather than merely descriptive. Results should be compared with previous studies on similar topics and must address the hypotheses or research questions stated in the introduction.

### Study Characteristics

The studies included in this review were selected for their relevance to economic literacy, poverty reduction, and the pathways linking financial knowledge to individual and community well-being. Key themes include financial inclusion, personal financial management, income enhancement, and the role of financial education in empowering marginalized groups. The literature also examines demographic and regional factors, government interventions, and the effectiveness of financial literacy programs in promoting sustainable poverty alleviation.

### Interpretation of Findings

The literature indicates that economic literacy significantly contributes to poverty reduction by enhancing income, financial decision-making, and access to financial services (Le, Dan, Nguyen, Vu, & Tran, 2019; Ozili, 2020). Individuals and communities with higher financial literacy manage resources more effectively, avoid harmful financial behaviors, and utilize economic opportunities more productively (Kyeyune & Ntayi, 2024; Supartono et al., 2024; Xu et al., 2023), highlighting the vital role of economic knowledge in improving household welfare.

Conversely, low financial literacy especially among rural populations, women-led enterprises, and undereducated groups limits access to formal financial institutions and constrains income growth, thereby

perpetuating poverty and vulnerability (Xu et al., 2023). Nonetheless, targeted financial literacy programs and inclusive financial strategies, when combined with capacity-building initiatives, have been shown to enhance financial behavior and promote broader economic participation.

Overall, economic literacy serves as both a protective and empowering mechanism that fosters economic resilience and supports sustainable poverty alleviation (Holle, 2019; Saragih, 2020).

### **The Impact of Economic Literacy on Poverty Levels**

Economic literacy plays a vital role in enhancing individual and household financial well-being. By equipping people with the skills to manage money, assess risks, and make informed financial decisions, it fosters responsible behaviors such as prudent debt management, saving, and investment (Samosir, Harahap, & Wardani, 2024). A solid understanding of basic financial concepts enables individuals to balance income and expenditure, plan for the future, and allocate resources efficiently leading to increased income, asset accumulation, and reduced poverty risk. These capabilities also strengthen community-level financial stability and resilience to economic shocks (Supartono et al., 2024).

Furthermore, economic literacy acts as a catalyst for financial inclusion and access to formal financial services. Individuals with higher financial literacy demonstrate greater confidence and competence in utilizing banking and financial products (Haedar, Risdayanti, & Syafitri, 2024; Holle, 2019). Understanding the benefits and risks of financial services encourages saving, investment, and responsible credit use (Le et al., 2019). For low-income and rural communities, improved literacy enhances income, promotes economic independence, and supports long-term financial planning, such as education and retirement (Kyeyune & Ntayi, 2024). Conversely, limited financial literacy often results in poor financial management, dependency on aid, and slower community development (Supartono et al., 2024).

### **Mechanisms of Economic Literacy in Reducing Poverty**

Economic literacy serves as a key mechanism for poverty reduction by enhancing access to financial education, entrepreneurship, and personal financial management. Family financial education particularly on investment helps lower-income groups understand investment concepts, benefits, and practical strategies such as saving 5% of income through auto-debit systems to build assets and prevent fraudulent schemes. Financial literacy programs targeting social assistance recipients also encourage wise financial management and the use of aid funds as microenterprise capital (Supartono et al., 2024).

Financial inclusion complements this process by promoting equitable economic growth through wider access to savings, credit, and insurance, especially for marginalized and low-income communities (Prasetyo, Supriyanto, & Sukardi, 2019). Economic literacy further empowers women by facilitating access to collateral-free capital for home-based enterprises, thereby improving household income and welfare (Saragih, 2020). The development of MSMEs driven by financial literacy and inclusion provides a sustainable pathway for household-level income generation (Adriani & Wiksuana, 2018).

Additionally, institutions such as Savings and Credit Cooperative Organizations (SACCOs) play a vital role in empowering rural populations through financial services, entrepreneurship training, and access to productive capital, leading to higher income, employment, and market expansion (Kyeyune & Ntayi, 2024; Xu et al., 2023). Digital financial services also broaden participation in the formal economy by fostering savings habits and expanding access to investment and consumption in remote areas (Osuma, 2025). Ultimately, economic literacy and financial inclusion function not only as tools for financial education but also as complementary socio-economic strategies that accelerate sustainable poverty reduction (Ozili, 2020).

### **Moderation and Mediation Factors**

Financial literacy emerges as a foundational element in empowering individuals to break the cycle of poverty. It not only strengthens personal financial management, particularly among vulnerable groups like MSME housewives, but also acts as a critical moderator in the success of social assistance programs (Kyeyune & Ntayi, 2024; Supartono et al., 2024). Higher levels of economic knowledge and education correlate with greater financial inclusion, while financial education enhances the long-term poverty reduction effects of literacy (Le et al., 2019; Ozili, 2020; Xu et al., 2023). However, persistent challenges such as low literacy levels and limited human capital continue to undermine inclusive financial progress (Ibitoye et al., 2025; Osuma, 2025; Prasetyo et al., 2019; Supartono et al., 2024).

Economic literacy alone is insufficient without addressing structural and contextual factors. Inflation, income disparities, and economic instability increase poverty severity and erode purchasing power (Le et al., 2019; Osuma, 2025). Additionally, barriers like high financial service costs, lack of trust, weak infrastructure, and limited access to digital tools hinder meaningful inclusion (Adriani & Wiksuana, 2018; Ozili, 2020; Xu et al., 2023). Government initiatives often fall short without financial awareness among beneficiaries and face challenges related to program targeting and institutional transparency (Kyeyune & Ntayi, 2024).

Moreover, social and individual-level variables such as age, gender, education level, household size, and financial habits influence how effectively individuals utilize economic knowledge (Adriani & Wiksuana, 2018; Ozili, 2020). The financial strain faced by the "sandwich generation", along with cultural norms and language barriers, can impede the implementation of financial literacy programs. Thus, for economic literacy to translate into genuine prosperity, it must be supported by integrated, context-sensitive strategies that address social, technological, and institutional dimensions of poverty.

### Policy Implications

Strengthening financial literacy is recognized as a fundamental strategy for economic empowerment and poverty reduction (Haedar et al., 2024; Kyeyune & Ntayi, 2024; Osuma, 2025). Effective financial education should begin at an early age through integration into formal school curricula, with mandatory courses at the secondary level (Hadi, Akib, Novriansyah, & Wolok, 2025; Xu et al., 2023). Targeted training programs are also essential for vulnerable groups, including low-income families, women, rural households, and recipients of social assistance (Adriani & Wiksuana, 2018; Kyeyune & Ntayi, 2024). Practical delivery methods such as door-to-door education have shown success in reaching marginalized communities.

Achieving financial literacy for all requires strong multi-stakeholder collaboration. Government agencies, the private sector (including banks and microfinance institutions), academic institutions, NGOs, and community leaders must work together to design and implement inclusive educational programs (Le et al., 2019; Samosir et al., 2024). These partnerships, especially through public-private cooperation, play a vital role in expanding access to information, developing tailored literacy content, and building sustainable support networks (Adriani & Wiksuana, 2018; Osuma, 2025). Such synergy ensures that economic literacy initiatives are locally relevant, accessible, and capable of driving long-term prosperity.

### CONCLUSION

This study concludes that economic literacy plays a pivotal role in reducing poverty by empowering individuals to make informed financial decisions, improve income management, and strengthen resilience against economic shocks. The findings demonstrate that financial knowledge, when integrated into education systems and community-based programs, can effectively enhance financial inclusion, entrepreneurship, and overall welfare among low-income groups. Economic literacy thus functions not only as an educational outcome but as a strategic socioeconomic instrument that promotes sustainable prosperity. Its success, however, depends on adequate human resource quality, digital accessibility, and institutional collaboration. Therefore, enhancing financial education from an early age and expanding literacy initiatives through multi-sectoral partnerships are essential for building long-term economic independence and equality. Future research may focus on evaluating the impact of specific literacy programs and digital innovations in improving financial behavior and reducing poverty in diverse regional contexts.

### REFERENCES

- Adriani, D., & Wiksuana, I. (2018). Inklusi Keuangan dalam Hubungannya dengan Pertumbuhan UMKM Tingkat Kesejahteraan Masyarakat di Provinsi Bali. *E-Jurnal Manajemen Unud*, 7(12), 6420–6444. <https://doi.org/10.24843/EJMUNUD.2018.v07.i12.p02>
- Ashari, N., Gunawan, S., Irwan, & Nilawati. (2019). Pengaruh Pendidikan, Pengangguran, dan Kemiskinan terhadap Ketimpangan Pendapatan di Indonesia. *Jurnal Ekonomi Bisnis Dan Kewirausahaan*, 8(3), 250. <https://doi.org/10.26418/jebik.v8i3.34721>
- Badan Pusat Statistik. (2025). Persentase Penduduk Miskin (P0) Menurut Provinsi dan Daerah (Persen), 2024. Retrieved June 27, 2025, from Badan Pusat Statistik website: <https://www.bps.go.id/id/statistics-table/2/MTkyIzI=/persentase-penduduk-miskin--september-2024.html>
- Dolonseda, H., Manongko, A., & Arsana, I. K. (2024). Analisis Dampak Literasi Ekonomi dan Literasi Keuangan terhadap Minat Berwirausaha: Sebuah Studi Pada Mahasiswa Pendidikan Ekonomi. *SOCIAL: Jurnal Inovasi Pendidikan IPS*, 4(4), 495–506. <https://doi.org/https://doi.org/10.51878/sosial.v4i4.3581>
- Habibullah. (2019). Financial Inclusion and Poverty Reduction: Study on Distribution Non-Cash Social Assitance. *Sosio Informa*, 5(1), 38–53. <https://doi.org/https://doi.org/10.33007/inf.v5i1.1657>
- Hadi, F., Akib, Y., Novriansyah, M. A., & Wolok, E. (2025). Dinamika Kemiskinan di Provinsi Gorontalo: Tren, Tantangan, dan Strategi Penanggulangan 2012-2022. *Jurnal Ilmiah Manajemen Dan Bisnis*, 7(3), 1203–1215. <https://doi.org/https://ejurnal.ung.ac.id/index.php/JIMB/article/viewFile/29932/9853>
- Haedar, Risdianti, & Syafitri, A. (2024). Peran Literasi Keuangan Dalam Meningkatkan Inklusi Keuangan Bagi Ibu Rumah Tangga Yang Mengelola Usaha. *Journal of Digital Business*, 02(02), 83–91. <https://doi.org/https://journal.universitatumigora.ac.id/income/article/download/4136/1782>
- Holle, M. H. (2019). Inklusi Keuangan: Solusi Pengentasan Kemiskinan Guna Daya Saing Perekonomian Bangsa. *Journal of Islamic Economic And Business (JIEB)*, 01(02), 1–14. <https://doi.org/https://doi.org/10.33477/eksy.v1i02.1257>
- Ibitoye, O. A., Ogundele, A. T., Monehin, J. O., Abraham, A., Ilugbusi, B. S., & Francis, A. O. (2025). Investigating the Nexus Between Financial Inclusion and Poverty Reduction in Nigeria (2013-2023). *Journal of Sustainable Development Law and Policy*, 16(1), 241–255. <https://doi.org/10.4314/JSDLP.V16I1.13>
- Kitchenham, B., & Brereton, P. (2013). A systematic review of systematic review process research in software engineering. *Information and Software Technology*, 55(12), 2049–2075. <https://doi.org/10.1016/j.infsof.2013.07.010>

- Kyeyune, G. N., & Ntayi, J. M. (2024). Empowering rural communities: the role of financial literacy and management in sustainable development. *Frontiers in Human Dynamics*, 6(February), 1–15. <https://doi.org/10.3389/fhumd.2024.1424126>
- Le, T. T., Dan, N. D. L., Nguyen, T. D. T., Vu, T. S., & Tran, M. D. (2019). Determinants of financial inclusion: Comparative study of Asian countries. *Asian Economic and Financial Review*, 9(10), 1107–1123. <https://doi.org/10.18488/journal.aefr.2019.910.1107.1123>
- Marpaung, R., Aureli, M., & Cahya, J. (2024). Optimalisasi Sumber Daya Lokal melalui Literasi Ekonomi: Kunci Peningkatan Kesejahteraan di Desa Perkebunan Maryke. *Jurnal Pengabdian Masyarakat Indonesia Sejahtera*, 3(3). <https://doi.org/https://doi.org/10.59059/jpmis.v3i3.1663>
- Munawar, R., Humaira, K., & Radhia, R. (2024). Analisis Pengaruh Kemiskinan terhadap Dunia Pendidikan di Kota Bandung. *Prospek: Jurnal Program Studi Pendidikan Ekonomi*, 5(1), 411–418. <https://doi.org/https://doi.org/10.37058/prospek.v5i1.9527>
- Osuma, G. (2025). The impact of financial inclusion on poverty reduction and economic growth in Sub-Saharan Africa: A comparative study of digital financial services. *Social Sciences and Humanities Open*, 11(December 2024), 101263. <https://doi.org/10.1016/j.ssaho.2024.101263>
- Ozili, P. K. (2020). Financial Inclusion Research Around the World: A Review. *SSRN Electronic Journal*, (101809). <https://doi.org/10.2139/ssrn.3515515>
- Prasetyo, J. R., Supriyanto, & Sukardi, B. (2019). Penguatan Financial Performance dan Poverty Reduction. *Journal of Finance and Islamic Banking*, 2(2), 220–250. <https://doi.org/10.22515/jfib.v2i2.1942>
- Samosir, H. E., Harahap, M. A., & Wardani, P. (2024). Edukasi Manajemen Keuangan Keluarga Dalam Mengatasi Kemiskinan Ekstrem Di Desa Mekar Baru. *Jurnal Abdi Mas Adzkie*, 05(02), 305–312. <https://doi.org/https://jurnal.uinsu.ac.id/index.php/adzkie/article/viewFile/21601/9508>
- Saragih, J. F. S. (2020). Penanggulangan Kemiskinan Perempuan melalui Strategi Keuangan Inklusif oleh Koperasi Mitra Dhuafa (KOMIDA). *Aspirasi: Jurnal Masalah-Masalah Sosial*, 11(1), 73–87. <https://doi.org/10.46807/aspirasi.v11i1.1501>
- Supartono, Anggiana, A., Triagita, A., Maharani, C., Shalsabella, E., & Mariana, G. (2024). Sosialisasi dan Edukasi Literasi Keuangan pada Masyarakat Penerima Bantuan Sosial dalam Meningkatkan Kesejahteraan Masyarakat Miskin. *Jurnal Ilmiah Pengabdian Pada Masyarakat (JIPM)*, 02(01), 68–72. <https://doi.org/http://doi.org/10.47233/jipm.v2i1.1496> Sosialisasi
- Tsouli, D. (2022). Financial Inclusion, Poverty, and Income Inequality: Evidence from High, Middle, and Low-income Countries. *Scientific Annals of Economics and Business*, 69(1), 69–98. <https://doi.org/10.47743/saeb-2022-0005>
- Xu, S., Yang, Z., Tong, Z., & Li, Y. (2023). Knowledge changes fate: Can financial literacy advance poverty reduction in rural households? *Singapore Economic Review*, 68(4), 1147–1182. <https://doi.org/10.1142/S0217590821440057>